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Catholic institutional investors feel sting of financial crisis

Mark Pattison   Catholic News Service | Sep. 22, 2008

WASHINGTON -- The upheavals in U.S. credit markets this year, which intensified in September, have left those responsible for some of the nation's largest Catholic institutional investments a bit leery.

"I must admit, I do check the corner" of the CNN screen that shows the latest stock market ups and downs, said Sr. Carol Keehan, a Daughter of Charity who heads the Catholic Health Association and who formerly ran Providence Hospital in Washington.

Keehan said she had not seen such market upheavals since "the late '80s, early '90s when the investments really tanked then."

"Black Monday" in October 1987 featured the second-largest single-day decline in U.S. stock market history.

The early 1990s was the time of the U.S. savings and loan crisis, which resulted in federal bailouts totaling $126 billion -- already eclipsed by this year's $200 billion buyout of mortgage giants Fannie Mae and Freddie Mac, $183 billion in loans to banks, $85 billion in loans to insurance giant American International Group, and $60 billion in loans to investment banks, plus $29 billion in financing to J.P. Morgan Chase to buy Bear Stearns.

That earlier downturn "impacted dramatically the solvency or the adequacy of (Catholic hospitals') retirement funds in particular, and reserves in those funds, and their responsibility to make sure those funds are always adequate," Keehan told Catholic News Service in a Sept. 18 telephone interview.

In tough times, she added, "you need to put significantly more in to make up for those investment losses. Catholic health care identified that, (then) they weathered the storm, and they stayed responsible to their employees. They'll do it again, but it certainly makes it very challenging."

"We've avoided the biggest risk sectors of the market," said Frank Haines, chief investment officer of Christian Brothers Investment Services, which manages $4 billion in funds for the Christian Brothers and other Catholic religious orders.

"We've ceased our securities lending in our portfolio late last year" based on observations of the market, he added. "You'd think this would be great for us. But we've seen high-quality assets sorely impacted by what's going on."

This kind of market action distresses Haines' clients. "They have a hard time raising money," he said. "They don't like losses. ... Whether the fundamentals are strong or not, all of our financials have been hard hit," Haines told CNS in a Sept. 17 telephone interview.

"It's been very tough sledding for us the past couple of months. It's going to pass and our managers aren't going to change their approach. It's going to take time to ride out," he said. "It's tough for everybody right now. Everybody's acting in a panicky mode."

Frank Rauscher, ex-president of Aquinas Mutual Funds and, since 2004, senior principal of Aquinas Associates in Dallas, which manages billions of dollars in the market for its institutional investors, said his clients are "reasonably diversified" and should not suffer unduly from the current tumult.

Dioceses, if they follow the U.S. Conference of Catholic Bishops' investment guidelines, would not deposit money only in funds graded "unsatisfactory" or "needs improvement," Rauscher said.

"Probably some of these institutions have deposits there. They need to rethink their FDIC (Federal Deposit Insurance Corp.) coverage ... but as far as owners go, there probably aren't too many financial institutions that would have been on an exclusionary list for investing," Rauscher said.

It's possible that Catholic dioceses and foundations may have had some ownership in such institutions, but as a point of leverage in achieving social goods. When dioceses do so, he added, "they have the ability to at least go in and talk to the banks about issues of importance to them."

Ursuline Sister Valerie Heinonen, who helps manage assets for four U.S. women's religious orders including her own, has been trying to figure out the new relationships that will be necessary following the shakeout.

Sister Valerie has been working on neighborhood redlining issues since 1980, "when faith-based investors saw it, and knew that they could do something (to fight it) with their portfolios."

Redlining is the discriminatory practice of some lending institutions to deny loans for properties in certain neighborhoods.

She mused, "Freddie Mac was my particular long, longtime conversation (partner)," and was seized by the federal government.

She also worked on shareholder resolutions with General Motors and the Delphi auto-parts manufacturing firm after GM spun it off. "Now Delphi is bankrupt and can't arrange for financing to get out of bankruptcy," she said. Her fourth major corporate interest? AIG, which will be 80 percent government-owned, thanks to an $85 billion loan.

"I'm trying to find out what 'conservatorship' means" in the context of government takeovers, Sister Valerie said.

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